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FILER:

COMPANY DATA:		WEBTV NETWORKS INC
COMPANY CONFORMED NAME:		0001001616
CENTRAL INDEX KEY:		SERVICES-PREPACKAGED SOFTWARE [7372]
STANDARD INDUSTRIAL CLASSIFICATION:		770406905
IRS NUMBER:		CA
STATE OF INCORPORATION:		0630
FISCAL YEAR END:		

FILING VALUES:	
FORM TYPE:	10-K
SEC ACT:	
SEC FILE NUMBER:	333-26411-01
FILM NUMBER:	97713324

BUSINESS ADDRESS:	
STREET 1:	305 LYITON AVENUE
STREET 2:	2800 DAND HILL ROAD
CITY:	PALO ALTO
STATE:	CA
ZIP:	94301
BUSINESS PHONE:	4153263240

MAIL ADDRESS:	
STREET 1:	305 LYITON AVENUE
STREET 2:	2800 SAND HILL ROAD
CITY:	PALO ALTO
STATE:	CA
ZIP:	94301

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<TYPE>10-K

<SEQUENCE>1

<DESCRIPTION>FORM 10-K FOR TRANSITION PERIOD ENDING 6/30/1997

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converted to Microsoft Common Shares basis, was approximately \$50,360,916. As of September 30, 1997 there were 1,672,801 Class A Common Shares and 7,170,512 Class B Common Shares outstanding.

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PART I

ITEM 1. BUSINESS

BACKGROUND TO TRANSITION REPORT

On April 5, 1997, WebTV Networks, Inc. ("WNI" or the "Company") and three principal shareholders of WNI entered into an Agreement and Plan of Recapitalization with Microsoft Corporation ("Microsoft"), pursuant to which WNI agreed to undergo a recapitalization (the "Recapitalization") that would cause it to become a controlled subsidiary of Microsoft, subject to certain terms and conditions thereof. The Recapitalization closed on August 1, 1997, and, effective as of such date, WNI became a controlled subsidiary of Microsoft. Effective August 13, 1997, WNI determined to change its fiscal year end from March 31 to June 30, to conform to the June 30 fiscal year end of Microsoft. This Transition Report covers WNI's April 1, 1997 to June 30, 1997 transition period (the "Transition Period").

GENERAL

WNI offers an on-line service that enables consumers to experience the Internet through their televisions. WNI has developed a set-top terminal (the "WebTV set-top terminal") that attaches to a television and telephone line and enables consumers to access WNI's subscription-based on-line service (the "WebTV Network"). WNI has licensed the design for its set-top terminal to consumer electronics manufacturers, currently Sony Electronics ("Sony"), Philips Consumer Electronics ("Philips") and Pace Microtechnology ("Pace"), who offer the set-top terminal to consumers, while WNI operates the WebTV Network. By attempting to reduce the cost and complexity barriers to Web access, WNI's goal is to make the Internet available to a wider audience than has previously been possible.

PRODUCTS, SERVICES AND TECHNOLOGY

WNI offers an Internet on-line service that can be accessed by consumers via the WebTV set-top terminal which connects to a television and a telephone line. Once the WNI set-top terminal is connected, the user pays a flat monthly fee (currently \$19.95/month) for unlimited access to the Internet via the WebTV Network, which performs all of the underlying operations necessary to provide the consumer with access to the Internet. In addition, the WebTV Network offers the user a remote-controlled browser, an e-mail interface and aggregated content. WNI's solution for connecting consumers to the Internet via a television and a telephone line is composed of the WNI set-top terminal and the WebTV Network.

THE WEBTV SET-TOP TERMINAL

The WebTV set-top terminal connects to a television and a telephone line to enable the user to access the Internet via the WebTV Network. In addition to the power cord, the set-top terminal has two cables: one connects to the consumer's television (or VCR), and the other plugs into the telephone line. The front panel of the set-top terminal is equipped with an infrared receiver for the remote control, a smart card slot, and three different LED displays: a POWER LED to indicate when the terminal is on or off, a CONNECTED LED to

As of June 30, 1997, WNI had 249 employees, including 95 in engineering and product development, 28 in network operations, 22 in customer care, 39 in marketing and sales, 29 in content/editorial and 36 in finance and administration.

None of WNI's employees is represented by a labor organization, and WNI is not a party to any collective bargaining agreement. WNI has never had any employee strike or work stoppage and considers its relations with its employees to be good.

ITEM 2. PROPERTIES

WNI's headquarters, including its executive offices, network operations center, and engineering, marketing and sales facilities are located in Palo Alto, California, and certain operations are in the process of being moved to facilities in Mountain View, California. The Palo Alto and Mountain View facilities occupy an aggregate of approximately 134,000 square feet. WNI occupies these facilities under leases that expire in one to five years and certain of these leases provide options for up to an additional one to five years. WNI believes that its existing facilities are adequate to meet its requirements for the foreseeable future and that suitable additional or substitute space will be available as needed.

ITEM 3. LEGAL PROCEEDINGS

WNI is not currently subject to any material legal proceedings. From time to time WNI has been, and expects to continue to be, subject to legal proceedings and claims in the ordinary course of its business, including claims of alleged infringement of the trademarks and other intellectual property rights of third parties by WNI and its licensees. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the three months ended June 30, 1997.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

None of the Company's capital shares were traded publicly at any time during the Transition Period or thereafter. The Company had 133 shareholders of record as of June 30, 1997, of which 90 were holders of Common Stock and 14, 12, 23 and 1 were holders of Series A redeemable convertible preferred stock, Series B redeemable convertible preferred stock, Series C convertible preferred stock and Series D convertible preferred stock, respectively. No cash dividends have been declared on the Company's capital shares to date and the Company does not intend to pay a cash dividend on its capital shares in the foreseeable future. Future earnings will be used as a source to finance the growth and development of the Company.

During the period of April 1, 1997 through June 30, 1997, the Company issued 17,250 shares of common stock upon the exercise of stock options for total proceeds of \$2,638, pursuant to Rule 701 of the Securities Act of 1933. Such proceeds were used for general corporate purposes, including working

fund is subject, some or all of such additional amount would not be released to holders of warrants.

Pursuant to the Recapitalization Agreement, Microsoft granted additional options to purchase Microsoft common shares to the Company's employees so that those employees (other than the principal shareholders) who held common shares of the Company or options to purchase common shares of the Company on April 5, 1997 received additional aggregate consideration of not more than \$31,886,000.

As of the effective date of the recapitalization, the Company became a controlled subsidiary of Microsoft and the Company expects that its existing operations will be the same in all material respects. Although each director of the Company resigned following the Recapitalization, and three Microsoft employees have been appointed to serve on the Board of Directors and elected to be the President, Chief Financial Officer, Treasurer and Secretary of the

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WEBTV NETWORKS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

Company, current management expects that it will continue to manage the Company after the Recapitalization. In addition, the Company will be engaged in the same lines of business with the same assets.

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SCHEDULE II

WEBTV NETWORKS, INC. VALUATION AND QUALIFYING ACCOUNTS

<TABLE>
<CAPTION>

	BALANCE AT BEGINNING OF PERIOD <C>	ADDITIONS CHARGED TO EXPENSE <C>	WRITE-OFFS <C>	BALANCE AT END OF PERIOD <C>
<S>				
Allowance for doubtful accounts				
Inception to March 31, 1996	\$ -	\$ -	\$ -	\$ -
Year ended March 31, 1997	-	50,000	-	50,000
Three months ended June 30, 1997	50,000	42,000	-	92,000

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

The executive officers and directors of WNI are as follows:

</TABLE>

- (1) Incorporated by reference to the registrant's registration statement on Form S-4 (Commission File No. 333-26411).
- (2) Incorporated by reference to the registrant's current report on Form 8-K (Commission File No. 1-4278) dated October 3, 1997

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the quarter ended June 30, 1997.

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SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 12th day of November, 1997.

WERTV NETWORKS, INC.

By /s/ Gregory B Maffei

Gregory B Maffei, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on this 12th day of November, 1997.

<TABLE>
<CAPTION>

SIGNATURES

TITLE

<S>

<C>

/s/ Stephen G. Perlman

Stephen G. PerlmanChief Executive Officer (Principal
Executive Officer)

/s/ Jean-Francois Heitz

Jean-Francois HeitzChief Financial Officer and Treasurer, and
Director (Principal Financial Officer)

/s/ Albert A. Pimentel